

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Sanilac County Community Mental Health Authority	County Sanilac
Audit Date September 30, 2005	Opinion Date December 6, 2005	Date Accountant Report Submitted to State: March 31, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

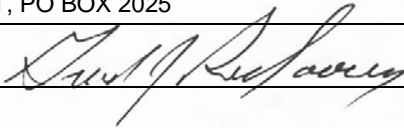
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025		City SAGINAW	State MI
Zip 48605		Accountant Signature 	



Sanilac County Community Mental Health Authority

Sandusky, Michigan

Financial Statements

For the Year Ended
September 30, 2005



REHMANN ROBSON

Certified Public Accountants

SANILAC COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

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REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

INDEPENDENT AUDITORS' REPORT

December 6, 2005

The Board of Directors
Sanilac County Community
Mental Health Authority
Sandusky, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the ***Sanilac County Community Mental Health Authority*** (the "Authority") as of and for the year ended September 30, 2005, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the major fund and the aggregate remaining fund information of the Authority as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison of the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2005, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the

internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Authority has not presented Management's Discussion and Analysis as required supplementary information. The GASB has determined that such information is necessary to supplement, although not required to be part of, the basic financial statements.

A handwritten signature in black ink, reading "Lehmann Lohorn". The signature is written in a cursive style with a large, prominent initial 'L'.

BASIC FINANCIAL STATEMENTS

GOVERNMENT - WIDE FINANCIAL STATEMENTS

SANILAC COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUND BALANCE SHEET
SEPTEMBER 30, 2005

	GENERAL FUND	ADJUSTMENTS	STATEMENT OF NET ASSETS
ASSETS			
Cash and cash equivalents	\$ 2,990,983	\$ 124,293	\$ 3,115,276
Restricted assets - cash and cash equivalents	362,539	-	362,539
Accounts receivable	216,287	-	216,287
Due from state	21,279	-	21,279
Due from other governmental units	62,525	-	62,525
Inventory	191,089	-	191,089
Prepaid expenditures/expenses	210,792	-	210,792
Net pension asset	-	142,903	142,903
Depreciable capital assets, net	-	1,960,688	1,960,688
TOTAL ASSETS	\$ 4,055,494	2,227,884	6,283,378
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 903,266	\$ -	\$ 903,266
Due to state	24,099	-	24,099
Due to other governmental units	790,257	-	790,257
Accrued payroll and benefits	287,036	-	287,036
Deferred/unearned revenue	60,930	-	60,930
Long-term liabilities			
Due within one year	-	228,193	228,193
Due in more than one year	-	25,355	25,355
TOTAL LIABILITIES	2,065,588	253,548	2,319,136
FUND BALANCE			
Reserved for inventory	191,089	(191,089)	-
Reserved for prepaid expenditures	210,792	(210,792)	-
Reserved for postemployment health benefits	362,539	(362,539)	-
Unreserved:			
Designated for compensated absences	253,548	(253,548)	-
Unreserved and undesignated	971,938	(971,938)	-
TOTAL FUND BALANCE	1,989,906	(1,989,906)	-
TOTAL LIABILITIES AND FUND BALANCE	\$ 4,055,494		
NET ASSETS			
Invested in capital assets		1,960,688	1,960,688
Restricted:			
Future contract losses		124,293	124,293
Postemployment health benefits		362,539	362,539
Unrestricted		1,516,722	1,516,722
TOTAL NET ASSETS		\$ 3,964,242	\$ 3,964,242

The accompanying notes are an integral part of these financial statements.

**SANILAC COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
RECONCILIATION OF FUND BALANCE ON THE BALANCE SHEET
FOR THE GOVERNMENTAL FUND TO NET ASSETS OF
GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005**

Fund balance - general fund	\$	1,989,906
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets		3,068,209
Deduct - accumulated depreciation		(1,107,521)

Certain other assets are not available to pay for current period expenditures and, therefore, are not reported in the funds

Add - net pension asset		142,903
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds

Deduct - accrued sick and vacation activity		(253,548)
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Net assets of the Internal Service Fund		124,293
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Net assets of governmental activities	\$	3,964,242
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The accompanying notes are an integral part of these financial statements.

SANILAC COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF ACTIVITIES AND
GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	GENERAL FUND	ADJUSTMENTS	STATEMENT OF ACTIVITIES
REVENUE			
State allocation	\$ 1,377,338	\$ -	\$ 1,377,338
P.A. 423 funds	100,499	-	100,499
Charges for services - Medicaid	13,776,220	-	13,776,220
Charges for services - sales	820,843	-	820,843
Charges for services - other	388,540	-	388,540
Contributions from County	247,600	-	247,600
Other grants	32,282	-	32,282
Interest	99,390	2,828	102,218
Rent	226,220	-	226,220
Other revenue	94,914	-	94,914
	<hr/>	<hr/>	<hr/>
TOTAL REVENUE	17,163,846	2,828	17,166,674
	<hr/>	<hr/>	<hr/>
EXPENDITURES / EXPENSES			
Mental illness - children's programs	709,205	-	709,205
Mental illness - adult programs	3,177,226	-	3,177,226
Developmental disabilities programs	11,053,497	-	11,053,497
Administrative	3,021,584	(1,587,905)	1,433,679
Other populations	82,767	-	82,767
Unallocated Depreciation	-	232,813	232,813
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES / EXPENSES	18,044,279	(1,355,092)	16,689,187
	<hr/>	<hr/>	<hr/>
REVENUE OVER (UNDER) EXPENDITURES / CHANGE IN NET ASSETS	(880,433)	1,357,920	477,487
	<hr/>	<hr/>	<hr/>
FUND BALANCE / NET ASSETS			
BEGINNING OF YEAR	2,870,339	616,415	3,486,754
	<hr/>	<hr/>	<hr/>
END OF YEAR	\$ 1,989,906	\$ 1,974,335	\$ 3,964,241
	<hr/>	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

**SANILAC COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF
THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

Net change in fund balances - total governmental fund	\$ (880,433)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Add: capital outlay	1,616,459
Subtract: depreciation expense	(232,813)
The reduction of the Authority's long-term liability for the net pension obligation did not provide current financial resources, and was consequently not reported in the funds.	
Subtract: reduction of net pension asset	(2,964)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Subtract: increase in the accrual of compensated absences	(25,590)
The net revenue (expense) of the internal service fund is reported with governmental activity	
Add: interest revenue from the internal service fund	2,828
Change in net assets of governmental activities	<u><u>\$ 477,487</u></u>

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

SANILAC COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	BUDGETED AMOUNTS			ACTUAL OVER (UNDER) FINAL BUDGET
	ORIGINAL	FINAL	ACTUAL	
REVENUE				
State allocation	\$ 1,654,222	\$ 1,464,338	\$ 1,377,338	\$ (87,000)
P.A. 423 funds	144,530	100,499	100,499	-
Charges for services - Medicaid	14,410,145	14,566,477	13,776,220	(790,257)
Charges for services - sales	845,000	820,843	820,843	-
Charges for services - other	350,840	403,336	388,540	(14,796)
Contributions from county	250,100	247,600	247,600	-
Other grants	16,585	22,111	32,282	10,171
Interest	55,000	99,390	99,390	-
Rent	134,880	226,220	226,220	-
Other revenue	90,000	88,319	94,914	6,595
TOTAL REVENUE	17,951,302	18,039,133	17,163,846	(875,287)
EXPENDITURES				
Mental illness - children's programs	776,652	709,205	709,205	-
Mental illness - adult programs	3,359,414	3,177,226	3,177,226	-
Developmental disabilities programs	11,340,785	11,053,497	11,053,497	-
Administrative	3,295,676	3,021,584	3,021,584	-
Other populations	23,775	82,767	82,767	-
TOTAL EXPENDITURES	18,796,302	18,044,279	18,044,279	-
NET CHANGE IN FUND BALANCES	(845,000)	(5,146)	(880,433)	(875,287)
FUND BALANCE, BEGINNING OF THE YEAR	2,870,339	2,870,339	2,870,339	-
FUND BALANCE, END OF YEAR	\$ 2,025,339	\$ 2,865,193	\$ 1,989,906	\$ (875,287)

The accompanying notes are an integral part of these financial statements.

**SANILAC COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2005**

INTERNAL
SERVICE FUND

ASSETS

Cash and cash equivalents	<u>\$ 124,293</u>
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NET ASSETS

Restricted for future contract losses	<u>\$ 124,293</u>
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The accompanying notes are an integral part of these financial statements.

SANILAC COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	<u>INTERNAL SERVICE FUND</u>
OPERATING EXPENSES	
Services and charges	<u>\$ -</u>
OPERATING INCOME	-
NON-OPERATING REVENUE	
Interest earned on investments	<u>2,828</u>
CHANGE IN NET ASSETS	2,828
NET ASSETS, BEGINNING OF YEAR	<u>121,465</u>
NET ASSETS, END OF YEAR	<u><u>\$ 124,293</u></u>

The accompanying notes are an integral part of these financial statements.

**SANILAC COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
 PROPRIETARY FUND
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	<u>INTERNAL SERVICE FUND</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from interfund services	\$ -
Cash payments to suppliers for goods and services	<u>-</u>
NET CASH USED IN OPERATING ACTIVITIES	-
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>2,828</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,828
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>121,465</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 124,293</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES:	
CASH FLOWS FROM OPERATING ACTIVITIES	
Operating income	\$ -
Adjustments to reconcile operating income to net cash used in operating activities:	
Change in due from other funds	<u>-</u>
NET CASH USED IN OPERATING ACTIVITIES	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

SANILAC COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the **Sanilac County Community Mental Health Authority** (the “Authority”), a Community Mental Health Authority established under Section 205 of the Michigan Mental Health Code, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Government Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles. The more significant of the accounting policies of the Authority are described below.

A. Reporting Entity

As indicated above, the Authority is a Community Mental Health Authority, serving the mental health needs of Sanilac County residents. Its Board of Directors is appointed by the County Commissioners of Sanilac County. The Authority is not a component unit of Sanilac County and has no entities included in its financial statements as component units.

B. Government – Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of the interfund activity has been removed from these statements. *Governmental activities*, which normally are used to account for the receipt and disbursement of monies for general operations, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The Authority has no business-type activities.

Separate financial statements are provided for governmental funds and proprietary funds. The general fund is the Authority’s only major fund and is reported as a separate column in the financial statements.

SANILAC COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for reimbursement-based grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Intergovernmental revenues, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Authority reports the following major governmental fund:

The *general fund* is the Authority's primary operating fund. It accounts for all financial resources of the entity, except those required to be accounted for in another fund.

Additionally, the Authority reports the following fund type:

The *internal service fund* is used to secure funds as part of an overall strategy for covering risk exposure under the Michigan Department of Community Health Managed Specialty Supports and Services Contract.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

SANILAC COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the government's internal service fund are charges to the general fund for services. Operating expenses for the internal service fund include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Authority's cash and cash equivalents consist of deposits in checking accounts, other demand accounts and amounts deposited in a pooled liquid asset account.

Statutory Authority

Michigan law authorizes the Authority to deposit and invest in:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified institution.
- c. Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the investments company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

SANILAC COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

2. Restricted Assets

In the General Fund, certain funds have been restricted as to their use for the post employment benefits of key personnel.

3. Accounts Receivable

Client accounts receivable and revenue are recorded when client services are performed. A substantial portion of the Authority's revenue from services to clients is received under contractual arrangements with Medicaid, Medicare and Michigan Blue Cross/Blue Shield programs, whereby the Authority is paid based on allowable costs incurred. The preliminary settlement of amounts due to the Authority is subject to redetermination upon audit by the applicable agency.

4. Interfund Receivables/Payables

During the course of operations, transactions occur between funds for goods and services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

5. Inventory

The Authority values inventory at cost using the "first-in, first-out" (FIFO) method of accounting. The inventory consists of supplies and materials used in certain activities related to the developmental disabilities programs. The costs of expendable supplies used in other programs are recorded as expenditures when purchased.

6. Prepayments

Payments made to vendors for services that will benefit periods beyond September 30, 2005, are recorded as "prepaid expenses/expenditures" in the accompanying balance sheet and statement of net assets.

7. Capital Assets

Capital assets, which include property, plant and equipment are reported in the governmental activities columns in the government – wide financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

SANILAC COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the Authority are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building and improvements	20-50
Equipment	4-10
Machinery	5-12
Vehicles	4-10

8. Compensated Absences

Employees earn paid time off at a rate based upon their seniority and the number of hours worked. Employees can accumulate up to 130 days. Employees will be paid 50% of any unused paid time off in excess of 60 days upon retirement or termination.

9. Deferred/Unearned Revenue

Deferred/unearned revenue represents that portion of the current year Michigan Department of Community Health (MDCH) contract amount and unused grant funding that may be expended in the subsequent fiscal year. Such carryover of the MDCH contracted allocation is generally limited to five percent of the MDCH contract amount. Total deferred/unearned revenue of \$60,930 represents the carryover of the MDCH contracted allocation.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets and Budgetary Accounting

An annual budget is adopted in accordance with Michigan Law for the Authority's General Fund. The budget is adopted on a basis consistent with GAAP and with the requirements of the Michigan Department of Community Health. Budget amounts are presented as amended by the Board of Directors. Amounts over budget at the legal level of control are presented on the Statement of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund.

SANILAC COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

III. DETAILED NOTES ON ALL FUNDS

A. Deposit risk

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require and the Authority does not have a policy for deposit custodial credit risk. As of year end \$3,883,341 of the Authority's bank balance of \$4,083,341 was exposed to custodial credit risk because it was uninsured and uncollateralized.

B. Capital Assets

Capital asset activity for the year ended September 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ -	\$ 69,900	\$ -	\$ 69,900
Capital assets being depreciated:				
Buildings and improvements	163,695	1,292,331	-	1,456,026
Equipment	458,643	108,619	(6,089)	561,173
Machinery	95,683	-	-	95,683
Vehicles	<u>739,817</u>	<u>145,610</u>	<u>-</u>	<u>885,427</u>
Total capital assets being depreciated	<u>1,457,838</u>	<u>1,546,560</u>	<u>(6,089)</u>	<u>2,998,309</u>
Less accumulated depreciation				
Buildings and Improvements	(15,930)	(27,893)	-	(43,823)
Equipment	(284,303)	(74,141)	6,089	(352,355)
Machinery	(69,404)	(9,512)	-	(78,916)
Vehicles	<u>(511,160)</u>	<u>(121,267)</u>	<u>-</u>	<u>(632,427)</u>
Total accumulated depreciation	<u>(880,797)</u>	<u>(232,813)</u>	<u>6,089</u>	<u>(1,107,521)</u>
Total capital assets being depreciated, net	<u>\$ 557,041</u>	<u>\$1,383,647</u>	<u>\$ -</u>	<u>\$1,960,688</u>

SANILAC COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

C. Due To State

For the year ended September 30, 2005, the operations of the Authority were conducted under the terms and conditions of its contract with the Michigan Department of Community Health (MDCH). The amount due to the State represents the balance owed to the MDCH for excess Medicaid and State funded managed care proceeds that were not expended in the current year.

D. Long-Term Debt

Long-term obligations for the year ended September 30, 2005, were as follows:

	Balance October 1, 2004	Additions	(Reductions)	Balance September 30, 2005	Due Within One Year
Accrued compensated absences	<u>\$ 227,958</u>	<u>\$ 253,548</u>	<u>\$ (227,958)</u>	<u>\$ 253,548</u>	<u>\$ 228,193</u>

IV. OTHER INFORMATION

A. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. During the year ended September 30, 2005, the Authority carried commercial insurance to cover all risks of losses. The Authority pays premiums to Sanilac County for workers compensation coverage. Sanilac County purchases workers compensation coverage for all County and Authority employees through the Michigan Association of Counties. The Authority had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

B. Risk Management Internal Service Fund

The Sanilac County Community Mental Health Authority established an internal service fund during the year ended September 30, 1999 in accordance with the provisions of its Managed Specialty Supports and Services Contract with the Michigan Department of Community Health (MDCH). Under the terms of this contract, an internal service fund can be established if future medical expenditures are anticipated to exceed 105% of the funding to be provided under a managed care program. The fund can only be used to finance future expenditures not covered under the managed care program.

SANILAC COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

During the fiscal year 2003, the Authority became a part of the St. Clair Prepaid Inpatient Health Plan (PIHP) where the management responsibility for Medicaid Specialty Mental Health Supports and Services transfer from the Authority to the PIHP.

C. Defined Benefit Pension Plan

Plan Description

The Authority contributes to the Sanilac County Employee Retirement Plan and Trust, an agent multiple-employer defined benefit public employee retirement system (PERS) that acts as a common investment and administrative agent for both Sanilac County and the Sanilac County Community Mental Health Authority. The PERS is considered part of Sanilac County's financial reporting entity and is included in the County's primary government financial statements as a pension trust fund. The plan is administered by the Sanilac County Retirement Board. A copy of that report may be obtained by writing to the Sanilac County Board of Commissioners Office, 60 West Sanilac, Sandusky, MI 48471 or by calling (810) 648-2933.

Funding Policy

The Authority is required to contribute at an actuarially determined rate; the current rate is 11.40% of annual covered payroll. Employees are currently not required to contribute to the Plan. The contribution requirements and benefit provisions of the plan members and the Authority are established and may be amended by the Sanilac County Retirement Board.

SANILAC COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Annual Pension Cost and Net Pension Obligation

The Authority's annual pension cost and net pension obligation to the plan for the current year were as follows:

Annual required contribution	\$ 419,129
Less: Interest on net pension asset	(10,940)
Plus: Adjustment to annual required contribution	<u>20,603</u>
Annual pension cost	428,792
Contributions made	<u>425,828</u>
Decrease in net pension asset	2,964
Net pension (asset), beginning of year	<u>(145,867)</u>
Net pension (asset), end of year	<u>\$ (142,903)</u>

For the year ended September 30, 2005, the Authority's annual pension cost of \$428,792 was more than the Authority's required contribution of \$419,129, and of the actual contribution of \$425,828. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the individual entry age actuarial cost method.

The actuarial assumptions included (a) a rate of return of the investment of present and future assets of 7.25% per year compounded annually, (b) projected base salary increases of 4.25% per year compounded annually, attributable to inflation and additional projected salary increases of 0% to 3.7% per year, depending on age, attributable to seniority / merit, and (c) the assumption that benefits will not increase after retirement. The actuarial value of the assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2004, the date of the latest actuarial valuation, was 19 years.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
2003	\$ 326,257	97%	\$ (103,012)
2004	365,758	112%	(145,867)
2005	428,792	102%	(142,903)

SANILAC COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Schedule of Funding Progress

Actuarial Valuation Date <u>December 30</u>	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
2002	\$5,831,011	\$ 5,688,584	\$ (142,427)	102.5%	\$ 3,306,274	-4.3%
2003	6,347,131	6,589,629	242,498	96.3%	3,501,499	6.9%
2004	7,241,734	7,793,630	551,896	92.9%	4,187,709	13.2%

D. Commitments And Contingencies

In the normal course of operations, the Authority becomes a party to various claims and lawsuits. In the opinion of the legal council and Authority management, the ultimate resolution of such matters will not have a material effect on the financial position of the Authority.

E. Subsequent Events

In November 2005, the Authority entered into a purchase agreement for the purchase of a building with a cost of \$267,593.

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REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

December 6, 2005

The Board of Directors
Sanilac County Community
Mental Health Authority
Sandusky, Michigan

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the *Sanilac County Community Mental Health Authority*, as of and for the year ended September 30, 2005, and have issued our report thereon dated December 6, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the *Sanilac County Community Mental Health Authority's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *Sanilac County Community Mental Health Authority* basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance

with which could have a direct and material effect on the determination of financial statement amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Finance Committee and the Sanilac County Community Mental Health Authority Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Lehmann Johnson". The script is cursive and fluid, with the first letters of each word being capitalized and prominent.